

VILLAGE OF ONSTED
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
FEBRUARY 28, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

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SEP 01 2005

LOCAL AUDIT & FINANCE DIV.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF ONSTED	County LENAWEE
Audit Date 2/28/05	Opinion Date 8/24/05	Date Accountant Report Submitted to State: 8/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA			
Street Address 133 W. MAIN ST.	City MORENCI	State MI	ZIP 49256
Accountant Signature 		Date 8/24/05	

**VILLAGE OF ONSTED
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED FEBRUARY 28, 2005**

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VILLAGE OF ONSTED
Management's Discussion and Analysis
February 28, 2005

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of Village of Onsted, Michigan government-wide basis. They are designed to present a longer-term view of the Village's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The Village's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Village maintains 6 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street, local street and each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. The Village maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its wastewater and water operations.

VILLAGE OF ONSTED
Management's Discussion and Analysis
February 28, 2005

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, parks and recreation and community development. The business-type activities of the Village include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include the primary government and its component unit - The Medical Clinic.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories; governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Other Information

The Village has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

VILLAGE OF ONSTED
Management's Discussion and Analysis
February 28, 2005

The Village As A Whole

The Village's net assets for the year ended February 28, 2005 increased by 35.9% over the prior year. The major portion of this increase 32.0% was do to the receipt of a grant of \$187,500 not expended at year end.

The governmental activities reflect net assets of \$797,939 and the business-type (utilities) of \$970,571.

By far the largest portion of the Village's net assets reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF ONSTED
Management's Discussion and Analysis
February 28, 2005

VILLAGE OF ONSTED NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>
<u>Revenue</u>				
Program Revenue:				
Charges for Services	\$ 12,656	\$253,038	\$ 265,694	\$16,808
Operating Grants and Contributions	69,095	---	69,095	---
Capital Grants and Contributions	187,500	10,000	197,500	---
General Revenue:				
Property Taxes	175,563	---	175,563	---
Grants and Contributions Not Restricted To Specific Program	70,657	---	70,657	---
Other	<u>21,547</u>	<u>91,877</u>	<u>113,424</u>	<u>1,953</u>
Total Revenue	<u>537,018</u>	<u>354,915</u>	<u>891,933</u>	<u>18,761</u>
<u>Expenses</u>				
General Government	101,265	---	101,265	---
Public Safety	18,209	---	18,209	12,543
Public Works	178,666	---	178,666	---
Community and Economic Development	310	---	310	---
Recreation and Culture	27,944	---	27,944	---
Interest on Long-Term Debt	---	22,218	22,218	---
Utilities Expenses	---	<u>343,509</u>	<u>343,509</u>	---
Total Expenses	<u>326,394</u>	<u>365,727</u>	<u>692,121</u>	<u>12,543</u>
Increase (Decrease) In Net Assets	210,624	(10,812)	199,812	6,218
Net Assets Beginning of Year	<u>587,315</u>	<u>981,383</u>	<u>1,568,698</u>	<u>78,398</u>
Net Assets End of Year	<u>\$797,939</u>	<u>\$970,571</u>	<u>\$1,768,510</u>	<u>\$84,616</u>

VILLAGE OF ONSTED
Management's Discussion and Analysis
February 28, 2005

VILLAGE OF ONSTED NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>
Current and Other Assets	\$508,104	\$ 372,385	\$ 880,489	\$48,305
Capital Assets	<u>296,024</u>	<u>979,072</u>	<u>1,275,096</u>	<u>36,311</u>
Total Assets	<u>\$804,128</u>	<u>\$1,351,457</u>	<u>\$2,155,585</u>	<u>\$84,616</u>
Long-Term Liabilities				
Outstanding	\$ ---	\$ 349,274	\$ 349,274	\$ ---
Other Liabilities	<u>6,189</u>	<u>31,612</u>	<u>37,801</u>	<u>---</u>
Total Liabilities	<u>6,189</u>	<u>380,886</u>	<u>387,075</u>	<u>---</u>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	296,024	629,798	925,822	---
Reserved	187,500	---	187,500	---
Unrestricted	<u>314,415</u>	<u>340,773</u>	<u>655,188</u>	<u>84,616</u>
Total Net Assets	<u>\$797,939</u>	<u>\$ 970,571</u>	<u>\$1,768,510</u>	<u>\$84,616</u>

Government Activities

Government activities increased the Village's net assets by \$210,624.

Business-Type Activities

Business-type activities decreased the Village's net assets by \$10,812.

The Village's Funds

Our analysis of the Village's funds begins on Page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

VILLAGE OF ONSTED
Management's Discussion and Analysis
February 28, 2005

General Fund Budgetary Highlights

There were no differences between the original budget and amended budget.

Capital Assets And Debt Administration

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2005, amounted to \$1,275,096 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Long-term debt of the Village decreased by \$12,217 (see Note 8 of the basic financial statements). There was no new debt incurred in the fiscal year ended February 28, 2005.

Economic Factors And Next Year's Budget And Rates

The Village's budget for 2005-2006 fiscal year has taken inconsideration, the economic condition of the State of Michigan anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

Contacting The Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 108 S. Main St., Onsted, Michigan 49265.

PHILIP R. RUBLEY

- Certified Public Accountant -

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PHONE 517/458-2274

FAX 517/458-6353

PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'S
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

August 24, 2005

Honorable Mayor and Members
Of The Village Council
Village of Onsted
Onsted, MI 49265

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Onsted, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Onsted, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Onsted, Michigan, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Village's has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as of March 1, 2004.

The management's discussion and analysis and budgetary comparison information on pages 1 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Onsted, Michigan basic financial statements.

The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Village of Onsted
August 24, 2005

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

VILLAGE OF ONSTED
Government-wide Statement of Net Assets
February 28, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<u>Assets</u>				
Cash and Equivalents	\$464,246	\$ 341,369	\$ 805,615	\$44,795
Receivables - Net	19,545	24,722	44,267	3,510
Prepaid Items and Other Assets	21,720	8,887	30,607	---
Internal Balances	2,593	(2,593)	---	---
Capital Assets Not Being Depreciated	32,500	51,655	84,155	5,000
Capital Assets Being Depreciated - Net	<u>263,524</u>	<u>927,417</u>	<u>1,190,941</u>	<u>31,311</u>
Total Assets	<u>804,128</u>	<u>1,351,457</u>	<u>2,155,585</u>	<u>84,616</u>
<u>Liabilities</u>				
Accounts Payable and Accrued Expenses	6,189	31,612	37,801	---
Long-Term Liabilities:				
Due Within One Year	---	12,975	12,975	---
Due In More Than One Year	<u>---</u>	<u>336,299</u>	<u>336,299</u>	<u>---</u>
Total Liabilities	<u>6,189</u>	<u>380,886</u>	<u>387,075</u>	<u>---</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	296,024	629,798	925,822	---
Reserved	187,500	---	187,500	---
Unrestricted	<u>314,415</u>	<u>340,773</u>	<u>655,188</u>	<u>84,616</u>
Total Net Assets	<u>\$797,939</u>	<u>\$ 970,571</u>	<u>\$1,768,510</u>	<u>\$84,616</u>

The notes to financial statements are an integral part of this statement.

VILLAGE OF ONSTED
Government-wide Statement of Activities
For The Year Ended February 28, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
Primary Government					
<u>Governmental Activities:</u>					
General Government	\$101,265	\$ 12,391	\$ ---	\$ ---	\$ (88,874)
Public Safety	18,209	265	---	---	(17,944)
Public Works	178,666	---	67,805	187,500	76,639
Community and Economic Development	310	---	---	---	(310)
Recreation and Culture	<u>27,944</u>	<u>---</u>	<u>1,290</u>	<u>---</u>	<u>(26,654)</u>
Total Governmental Activities	<u>326,394</u>	<u>12,656</u>	<u>69,095</u>	<u>187,500</u>	<u>(57,143)</u>
<u>Business-Type Activities:</u>					
Utilities	<u>339,053</u>	<u>253,038</u>	<u>60,000</u>	<u>10,000</u>	<u>(16,015)</u>
Total Business-Type Activities	<u>339,053</u>	<u>253,038</u>	<u>60,000</u>	<u>10,000</u>	<u>(16,015)</u>
Total Primary Government	<u>\$665,447</u>	<u>\$265,694</u>	<u>\$129,095</u>	<u>\$197,500</u>	<u>\$ (731,158)</u>
<u>Component Unit – Medical Unit:</u>	<u>\$ 12,543</u>	<u>\$ 16,808</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 4,265</u>
Total Component Unit	<u>\$ 12,543</u>	<u>\$ 16,808</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 4,265</u>

VILLAGE OF ONSTED
Government-wide Statement Of Activities (Concluded)
For The Year Ended February 28, 2005

	<u>Primary Government</u>			<u>Component</u>
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>		
<u>Changes In Net Assets</u>				
Net (Expense) Revenue	\$ (57,143)	\$ (16,015)	\$ (73,158)	\$ 4,265
General Revenues:				
Property Taxes	175,563	---	175,563	---
Grants and Contributions				
Not Restricted To				
Specific Programs	70,657	---	70,657	---
Unrestricted Investment				
Earnings and Rentals	<u>21,547</u>	<u>5,203</u>	<u>26,750</u>	<u>1,953</u>
Total General Revenues,				
Contributions and Transfers	<u>267,767</u>	<u>5,203</u>	<u>272,970</u>	<u>1,953</u>
Change In Net Assets	210,624	(10,812)	199,812	6,218
Net Assets, Beginning of Year	<u>587,315</u>	<u>981,383</u>	<u>1,568,698</u>	<u>78,398</u>
Net Assets, End of Year	<u>\$797,939</u>	<u>\$970,571</u>	<u>\$1,768,510</u>	<u>\$84,616</u>

VILLAGE OF ONSTED
Governmental Funds
Balance Sheet
February 28, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$128,858	\$269,790	\$60,308
Prepaid Expenses	20,787	861	72
Receivables - Net	19,545	---	---
Due From Other Funds	<u>26,694</u>	<u>2,617</u>	<u>---</u>
Total Assets	<u>\$195,884</u>	<u>\$273,268</u>	<u>\$60,380</u>
<u>LIABILITIES</u>			
Accounts Payable/Accrued Liabilities	\$ 6,189	\$ ---	\$ ---
Due to Other Funds	<u>23,166</u>	<u>---</u>	<u>2,617</u>
Total Liabilities	<u>29,355</u>	<u>---</u>	<u>2,617</u>
<u>FUND BALANCES</u>			
Unreserved	166,529	85,768	57,763
Reserved	<u>---</u>	<u>187,500</u>	<u>---</u>
Total Fund Balances	<u>166,529</u>	<u>273,268</u>	<u>57,763</u>
Total Liabilities and Fund Balances	<u>\$195,884</u>	<u>\$273,268</u>	<u>\$60,380</u>

The notes to financial statements are an integral part of this statement.

**Other
Non-Major
Governmental
Funds**

\$5,290

\$5,290

\$ ---

935

935

4,355

4,355

\$5,290

**Total
Governmental
Funds**

\$464,246

21,720

19,545

29,311

\$534,822

\$ 6,189

26,718

32,907

314,415

187,500

501,915

\$534,822

VILLAGE OF ONSTED
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
February 28, 2005

Fund Balances – Total Governmental Funds

\$ 501,915

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in
the funds.

Add: Capital Assets

887,754

Deduct: Accumulated Depreciation

(591,730)

Net Assets of Governmental Activities

\$ 797,939

VILLAGE OF ONSTED
Governmental Funds
Statement of Revenue, Expenditures, and Changes In Fund Balances
For The Year Ended February 28, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<u>REVENUES</u>			
Taxes	\$175,563	\$ ---	\$ ---
Intergovernmental	70,657	52,766	15,039
Charges for Services	265	---	---
Interest and Rentals	19,753	1,524	267
Contributions	---	---	---
Federal Grant	---	187,500	---
Other	<u>12,382</u>	<u>9</u>	<u>---</u>
Total Revenue	<u>278,620</u>	<u>241,799</u>	<u>15,306</u>
<u>EXPENDITURES</u>			
Current:			
General Government	100,565	---	---
Public Safety	18,209	---	---
Public Works	60,200	36,015	5,225
Community Economic Development	310	---	---
Recreation and Culture	26,594	---	---
Capital Outlay	<u>12,804</u>	<u>---</u>	<u>---</u>
Total Expenditures	<u>218,682</u>	<u>36,015</u>	<u>5,225</u>
Excess of Revenue Over (Under) Expenditures	59,938	205,784	10,081
Other Financing Sources (Uses)			
Transfers In	---	---	13,192
Transfers (Out)	<u>(60,000)</u>	<u>(13,192)</u>	<u>---</u>
Total Other Financing Sources (Uses)	<u>(60,000)</u>	<u>(13,192)</u>	<u>13,192</u>
Net Change In Fund Balances	(62)	192,592	23,273
Fund Balances – Beginning of Year	<u>166,591</u>	<u>80,676</u>	<u>34,490</u>
Fund Balances – End of Year	<u>\$166,529</u>	<u>\$273,268</u>	<u>\$57,763</u>

The notes to financial statements are an integral part of this statement.

**Other
Non-Major
Governmental
Funds**

**Total
Governmental
Funds**

\$ ---

\$175,563

138,462

265

3

21,547

290

290

187,500

1,000

13,391

1,293

537,018

100,565

18,209

101,440

310

10

26,604

12,804

10

259,932

1,283

277,086

13,192

(73,192)

(60,000)

1,283

217,086

3,072

284,829

\$4,355

\$501,915

VILLAGE OF ONSTED
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
February 28, 2005

Net Change In Fund Balances – Total Governmental Funds

\$217,086

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense.

Add: Capital Outlay

12,804

Deduct: Depreciation Expense

(19,266)

Change In Net Assets Of Governmental Activities

\$210,624

VILLAGE OF ONSTED
Statement of Net Assets
Proprietary Funds
February 28, 2005

	Business-Type Activities - Enterprise Funds		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Utilities Fund</u>
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 94,043	\$ 247,326	\$ 341,369
Due from Other Funds	17,437	23,183	40,620
Accounts Receivable	9,696	14,667	24,363
Interest Receivable	---	359	359
Prepaid Expenses	3,606	5,281	8,887
Noncurrent Assets:			
Property and Equipment - Net	<u>253,158</u>	<u>725,914</u>	<u>979,072</u>
Total Noncurrent Assets	<u>253,158</u>	<u>725,914</u>	<u>979,072</u>
Total Assets	<u>\$377,940</u>	<u>\$1,016,730</u>	<u>\$1,394,670</u>
Liabilities			
Current Liabilities:			
Due to Other Funds	\$ 26,025	\$ 17,188	\$ 43,213
Accounts Payable and Accrued Liabilities	261	31,351	31,612
Notes Payable, Current Portion	<u>---</u>	<u>12,975</u>	<u>12,975</u>
Total Current Liabilities	<u>26,286</u>	<u>61,514</u>	<u>87,800</u>
Noncurrent Liabilities:			
Notes Payable	<u>---</u>	<u>336,299</u>	<u>336,299</u>
Total Noncurrent Liabilities	<u>---</u>	<u>336,299</u>	<u>336,299</u>
Total Liabilities	<u>26,286</u>	<u>397,813</u>	<u>424,099</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	253,158	376,640	629,798
Unrestricted	<u>98,496</u>	<u>242,277</u>	<u>340,773</u>
Total Net Assets	<u>\$351,654</u>	<u>\$ 618,917</u>	<u>\$ 970,571</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE OF ONSTED
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended February 28, 2005

	Business-Type Activities - Enterprise Funds		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Utilities Fund</u>
Operating Revenues			
Charges for Services	<u>\$ 78,888</u>	<u>\$ 174,150</u>	<u>\$ 253,038</u>
Liabilities			
Salaries and Wages	24,805	38,528	63,333
Fringe Benefits	11,820	11,397	23,217
Office Expenses	1,753	937	2,690
Contractual Services	1,390	---	1,390
Supplies and Materials	8,907	132,897	141,804
Utilities	9,352	16,458	25,810
Depreciation	13,232	72,706	85,938
Other Expenses	<u>6,042</u>	<u>28,090</u>	<u>34,132</u>
Total Operating Expenses	<u>77,301</u>	<u>301,013</u>	<u>378,314</u>
Operating Income (Loss)	<u>1,587</u>	<u>(126,863)</u>	<u>(125,276)</u>
Non-Operating Revenues (Expenses)			
Investment Income	1,983	3,220	5,203
Interest Expense	---	(22,218)	(22,218)
Grants - State	10,000	---	10,000
Other	<u>---</u>	<u>26,674</u>	<u>26,674</u>
Total Non-Operating Revenues (Expenses)	<u>11,983</u>	<u>7,676</u>	<u>19,659</u>
Other Financing Sources			
Transfer In	<u>---</u>	<u>60,000</u>	<u>60,000</u>
Total Other Financing Sources	<u>---</u>	<u>60,000</u>	<u>60,000</u>
Operating Income of Capital Before Amortization	13,570	(59,187)	(45,617)
Amortization of Contributed Capital	<u>---</u>	<u>34,805</u>	<u>34,805</u>
Income	13,570	(24,382)	(10,812)
Net Assets, Beginning of Year	<u>338,084</u>	<u>643,299</u>	<u>981,383</u>
Net Assets, End of Year	<u>\$351,654</u>	<u>\$ 618,917</u>	<u>\$ 970,571</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE OF ONSTED
Statement of Cash Flows
Proprietary Funds
For The Year Ended February 28, 2005

	Business-Type Activities		
	<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u> <u>Utilities Fund</u>
Cash Flows From Operating Activities			
Cash Received from Customers	\$ 81,161	\$ 174,007	\$ 255,168
Cash Received Miscellaneous	10,000	26,674	36,674
Cash Payment to Suppliers For			
Goods and Services/Employees	<u>(51,208)</u>	<u>(206,140)</u>	<u>(257,348)</u>
Net Cash Provided (Used)	<u>39,953</u>	<u>(5,459)</u>	<u>34,494</u>
Cash Flows From Capital and			
Related Financing Activities			
Purchase of Capital Assets	(65,511)	(13,715)	(79,226)
Notes Principal Payments	---	(12,217)	(12,217)
Notes Interest Payments	---	(22,218)	(22,218)
Fund Transfers	<u>---</u>	<u>60,000</u>	<u>60,000</u>
Net Cash (Used) by Capital and			
Related Financing Activities)	<u>(65,511)</u>	<u>11,850</u>	<u>(53,661)</u>
Cash Flows From Investing Activities			
Investment Income	<u>1,983</u>	<u>3,220</u>	<u>5,203</u>
Net Cash Provided (Used) by			
Investing Activities	<u>1,983</u>	<u>3,220</u>	<u>5,203</u>
Net Increase (Decrease) in Cash and			
Cash Equivalents	(23,575)	9,611	(13,964)
Cash and Cash Equivalents, Beginning of Year	<u>117,618</u>	<u>237,715</u>	<u>355,333</u>
Cash and Cash Equivalents, End of Year	<u>\$ 94,043</u>	<u>\$ 247,326</u>	<u>\$ 341,369</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE OF ONSTED
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended February 28, 2005

	Business-Type Activities - Enterprise Funds		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Utilities Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 13,570	\$ (59,187)	\$ (45,617)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	13,232	72,706	85,938
Changes in Assets and Liabilities:			
Accounts Receivable	2,546	(143)	2,403
Accounts Payable, Accrued			
Liabilities, Bonds Current Portion	13,713	30,960	44,673
Other Assets	<u>(1,125)</u>	<u>(8,793)</u>	<u>(9,918)</u>
Net Cash Provided (Used) by Operating Activities	<u>41,936</u>	<u>35,543</u>	<u>77,479</u>
Cash Flows from Capital Activities:			
Acquisition of Capital Assets	<u>(65,511)</u>	<u>(13,715)</u>	<u>(79,226)</u>
Net Cash (Used) from Capital Activities	<u>(65,511)</u>	<u>(13,715)</u>	<u>(79,226)</u>
Cash Flows From Financing Activities:			
Principal Paid on Notes	<u>---</u>	<u>(12,217)</u>	<u>(12,217)</u>
Net Cash (Used) from Financing Activities	<u>---</u>	<u>(12,217)</u>	<u>(12,217)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(23,575)	9,611	(13,964)
Cash and Cash Equivalents, Beginning of Year	<u>117,618</u>	<u>237,715</u>	<u>355,333</u>
Cash and Cash Equivalents, End of Year	<u>\$ 94,043</u>	<u>\$247,326</u>	<u>\$341,369</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Onsted, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

Village of Onsted, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of Village streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of Village streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Utilities Fund, Water and Sewer Funds accounts for acquisition, operation and maintenance of the Village's waste water and water system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds are also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

3. **Prepaid Items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4. **Inventories** - All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. **Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

6. Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of January of each year, the Village Council presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the Village Council.

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

B. Excess of Expenditures Over Appropriations In Budgeted Funds - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended February 28, 2005, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Treasurer	\$ 5,000	\$ 5,139	\$ 139
Public Safety:			
Crossing Guards	6,000	6,144	144
Recreation and Culture:			
Parks	---	922	922
Community Promotion	10,000	18,672	8,672
Library	3,500	7,000	3,500
Capital Outlay	---	6,000	6,000
Public Works:			
Capital Outlay	2,500	6,804	4,304
Transfer to Other Funds:	23,000	60,000	37,000

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the Village are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the Village or its agent in the Village's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Village's name.

	<u>Category</u> <u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Cash and Cash Equivalents	<u>\$100,000</u>	<u>\$705,615</u>	<u>\$ ---</u>	<u>\$805,615</u>	<u>\$805,615</u>
	<u>\$100,000</u>	<u>\$705,615</u>	<u>\$ ---</u>	<u>\$805,615</u>	<u>\$805,615</u>

Balance Sheet Cash And Cash Investments

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the Village's deposits are as follows:

<u>Deposits</u>	<u>Carrying</u> <u>Amount</u>
Insured (FDIC) (FSLIC)	\$100,000
Uninsured:	
Uncollateralized	<u>705,615</u>
Total	<u>\$805,615</u>

Component unit cash is all insured by FDIC for \$44,795

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended February 28, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 32,500	\$ ---	\$ ---	\$ 32,500
Capital Assets, Being Depreciated:				
Buildings	107,000	---	---	107,000
Equipment	25,800	6,000	---	31,800
Infrastructure	559,150	6,804	---	565,954
Vehicles	150,500	---	---	150,500
Total Capital Assets Being Depreciated	842,450	12,804	---	855,254
Less: Accumulated Depreciation For:				
Buildings	(52,240)	(2,340)	---	(54,580)
Equipment	(5,400)	(1,520)	---	(6,920)
Infrastructure	(421,124)	(7,406)	---	(428,530)
Vehicles	(93,700)	(8,000)	---	(101,700)
Total Accumulated Depreciation	(572,464)	(19,266)	---	(591,730)
Total Capital Assets, Being Depreciated, Net	269,986	(6,462)	---	263,524
Governmental Activities Capital Assets, Net	\$ 302,486	\$ (6,462)	\$ ---	\$ 296,024
<u>Component Unit - Medical Clinic</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 5,000	\$ ---	\$ ---	\$ 5,000
Capital Assets, Being Depreciated:				
Buildings	122,056	22,856	---	144,912
Total Capital Assets Being Depreciated	122,056	22,856	---	144,912
Less: Accumulated Depreciation For:				
Buildings	(110,241)	(3,360)	---	(113,601)
Total Accumulated Depreciation	(110,241)	(3,360)	---	(113,601)
Total Capital Assets, Being Depreciated, Net	11,815	19,496	---	31,311
Component Activities Capital Assets, Net	\$ 16,815	\$ 19,496	\$ ---	\$ 36,311

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 51,655	\$ ---	\$ ---	\$ 51,655
Capital Assets, Being Depreciated:				
Plant and Equipment	2,751,654	79,266	---	2,830,880
Total Capital Assets Being Depreciated	2,751,654	79,266	---	2,830,880
Less Accumulated Depreciation For:				
Plant and Equipment	(1,817,526)	(85,938)	---	(1,903,464)
Total Accumulated Depreciation	(1,817,526)	(85,938)	---	(1,903,464)
Total Capital Assets, Being Depreciated, Net	934,128	(6,712)	---	927,416
Business Type Activities Capital Assets, Net	\$ 985,783	\$ (6,712)	\$ ---	\$ 979,071

Depreciation expense was charged to functions/programs of the Village as follows:

Governmental Activities:

General Government	\$ 700
Public Works	17,226
Recreation and Culture	1,340

**Total Depreciation Expense
Governmental Activities**

\$19,266

Component Unit – Medical Clinic

\$ 3,360

Business-Type Activities:

Utilities - Water and Sewer	<u>\$85,938</u>
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**Total Depreciation Expense
Business-Type Activities**

\$85,938

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

At February 28, 2005, the following were interfund receivables and payables in the fund statement.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$26,694	\$23,166
Park Improvement Fund	---	935
Local Street Fund	---	2,617
Major Street Fund	2,617	---
Water Fund	17,437	26,025
Sewer Fund	<u>23,183</u>	<u>17,188</u>
	<u>\$69,931</u>	<u>\$69,931</u>

NOTE 6 – TRANSFERS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$60,000	\$60,000
Sewer Fund	---	---
Major Street Fund	---	13,192
Local Street Fund	<u>13,192</u>	<u>---</u>
	<u>\$73,192</u>	<u>\$73,192</u>

NOTE 7 – PROPERTY TAXES:

The Village collects its own property taxes within its jurisdiction. Village property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	<u>Balance</u> <u>March 1,</u> <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 28,</u> <u>2005</u>
Notes Payable - Onsted State Bank - Sewer Extension	\$105,641	\$ ---	\$ 4,639	\$101,002
Notes Payable - Onsted State Bank - Sewer Extension	<u>255,850</u>	<u>---</u>	<u>7,578</u>	<u>248,272</u>
Total	<u>\$361,491</u>	<u>\$ ---</u>	<u>\$12,217</u>	<u>\$349,274</u>

Village of Onsted – Sewer Extension Note

Title of note: Village of Onsted Sewer Extension
Purposes: Sewer Extension
Date of note: July 9, 2001
Interest Rate: 6.5%
Payments: \$11,506 including interest annually

<u>Payment</u> <u>Date</u>	<u>Total</u> <u>Payment</u>	<u>Principle</u>	<u>Interest</u>	<u>Balance</u>
				\$101,002
October 2, 2005	\$ 11,506	\$ 4,941	\$ 6,565	96,061
October 2, 2006	11,506	5,262	6,244	90,799
October 2, 2007	11,506	5,604	5,902	85,195
October 2, 2008	11,506	5,968	5,538	79,227
October 2, 2009	11,506	6,356	5,150	72,871
October 2, 2010	11,506	6,769	4,737	66,102
October 2, 2011	11,506	7,209	4,297	58,893
October 2, 2012	11,506	7,678	3,828	51,215
October 2, 2013	11,506	8,177	3,329	43,038
October 2, 2014	11,506	8,708	2,798	34,330
October 2, 2015	11,506	9,274	2,232	25,056
October 2, 2016	11,506	9,877	1,629	15,179
October 2, 2017	11,506	10,519	987	4,660
October 2, 2018	<u>4,963</u>	<u>4,660</u>	<u>303</u>	<u>---</u>
Total	<u>\$154,541</u>	<u>\$101,002</u>	<u>\$53,539</u>	

Balance outstanding at February 28, 2005 \$101,002

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

Village of Onsted – Sewer Extension Note

Title of note: Village of Onsted Sewer Extension
Purposes: Sewer Extension
Date of note: March 12, 2002
Interest Rate: 6.0%
Payments: \$22,930 including interest annually

<u>Payment Date</u>	<u>Total Payment</u>	<u>Principle</u>	<u>Interest</u>	<u>Balance</u>
				\$248,272
March 12, 2005	\$ 22,930	\$ 8,034	\$ 14,896	240,238
March 12, 2006	22,930	8,516	14,414	231,722
March 12, 2007	22,930	9,026	13,904	222,696
March 12, 2008	22,930	9,568	13,362	213,128
March 12, 2009	22,930	10,142	12,788	202,986
March 12, 2010	22,930	10,750	12,180	192,236
March 12, 2011	22,930	11,395	11,535	180,841
March 12, 2012	22,930	12,079	10,851	168,762
March 12, 2013	22,930	12,804	10,126	155,958
March 12, 2014	22,930	13,572	9,358	142,386
March 12, 2015	22,930	14,386	8,544	128,000
March 12, 2016	22,930	15,249	7,681	112,751
March 12, 2017	22,930	16,164	6,766	96,587
March 12, 2018	22,930	17,134	5,796	79,453
March 12, 2019	22,930	18,162	4,768	61,291
March 12, 2020	22,930	19,252	3,678	42,039
March 12, 2021	22,930	20,407	2,523	21,632
March 12, 2022	22,930	21,632	1,298	---
Total	<u>\$412,740</u>	<u>\$248,272</u>	<u>\$164,468</u>	

Balance outstanding at February 28, 2005 \$248,272

Maturities of Long-Term Debt

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2006	\$ 12,975
2007	13,778
2008	14,630
2009	15,536
2010	16,498
There After	<u>275,857</u>
	<u>\$349,274</u>

VILLAGE OF ONSTED
Notes to Financial Statements
February 28, 2005

NOTE 9 – PENSION PLAN

The Village of Onsted contributes to SEP for eligible individuals.

NOTE 10 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2005, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 11 – ACCOUNTING CHANGE

Effective March 1, 2004, the Village of Onsted, Michigan implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34), along with all related statements and interpretations. Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis of the Village's overall financial position and results of operations has been included.
- Village-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets totaling \$296,024.

The fund financial statements focus on major funds rather than fund types.

VILLAGE OF ONSTED
Budgetary Comparison Schedule
General Fund
For The Year Ended February 28, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$156,389	\$156,389	\$166,591	\$ 10,202
Taxes and Assessments	160,000	160,000	175,563	15,563
Intergovernmental	70,000	70,000	70,657	657
Licenses and Permits	---	---	265	265
Charges for Services	---	---	---	---
Interest and Rentals	17,000	17,000	19,753	2,753
Other	8,700	8,700	12,382	3,682
Amounts Available for Appropriation	<u>412,089</u>	<u>412,089</u>	<u>445,211</u>	<u>33,122</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government				
Village Office	11,600	11,600	6,567	5,033
Wages and Fringe - Unallocated	71,439	71,439	49,795	21,644
Treasurer	5,000	5,000	5,139	(139)
Clerk	10,750	10,750	9,411	1,339
Elections	1,500	1,500	357	1,143
Professional Services	9,900	9,900	8,640	1,260
Buildings and Grounds	22,400	22,400	8,085	14,315
Insurance	20,000	20,000	12,571	7,429
Public Safety				
Police	12,000	12,000	12,000	---
Crossing Guards	6,000	6,000	6,144	(144)
Inspections	500	500	65	435
Community Promotion and Economic Development	1,000	1,000	310	690
Recreation and Culture				
Parks and Recreation	---	---	922	(922)
Community Promotion	10,000	10,000	18,672	(8,672)
Library	3,500	3,500	7,000	(3,500)
Capital Outlay	---	---	6,000	(6,000)
Public Works				
Street Lighting	13,000	13,000	11,511	1,489
Sanitation	30,000	30,000	24,503	5,497
Other	153,000	153,000	24,186	128,814
Capital Outlay	2,500	2,500	6,804	(4,304)
Miscellaneous	5,000	5,000	---	5,000
Transfers to Other Funds	<u>23,000</u>	<u>23,000</u>	<u>60,000</u>	<u>(37,000)</u>
Total Charges to Appropriations	<u>412,089</u>	<u>412,089</u>	<u>278,682</u>	<u>133,407</u>
Ending of Year Fund Balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$166,529</u>	<u>\$166,529</u>

The notes to financial statements are an integral part of this statement.

VILLAGE OF ONSTED
Budgetary Comparison Schedule
Major Street Fund (Major Special Revenue Fund)
For The Year Ended February 28, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$ 74,000	\$ 74,000	\$ 80,676	\$ 6,676
Intergovernmental	50,600	50,600	52,766	2,166
Interest Income	900	900	1,524	624
Federal Grant	---	---	187,500	187,500
Miscellaneous	---	---	9	9
Amounts Available for Appropriation	<u>125,500</u>	<u>125,500</u>	<u>322,475</u>	<u>196,975</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	121,500	125,000	36,015	85,485
Transfers to Other Funds	<u>4,000</u>	<u>4,000</u>	<u>13,192</u>	<u>(9,192)</u>
Total Charges to Appropriations	<u>125,500</u>	<u>125,500</u>	<u>49,207</u>	<u>76,293</u>
Ending of Year Fund Balance (Deficit)	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$273,268</u>	<u>\$273,268</u>

VILLAGE OF ONSTED
 Budgetary Comparison Schedule
 Local Street Fund (Major Special Revenue Fund)
 For The Year Ended February 28, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$29,237	\$29,237	\$34,490	\$ 5,253
Intergovernmental	14,250	14,250	15,039	789
Interest Income	300	300	267	(33)
Transfer from Major Street Fund	<u>4,000</u>	<u>4,000</u>	<u>13,192</u>	<u>9,192</u>
Amounts Available for Appropriation	<u>47,787</u>	<u>47,787</u>	<u>62,988</u>	<u>15,201</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	<u>47,787</u>	<u>47,787</u>	<u>5,225</u>	<u>42,562</u>
Total Charges to Appropriations	<u>47,787</u>	<u>47,787</u>	<u>5,225</u>	<u>42,562</u>
Ending of Year Fund Balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$57,763</u>	<u>\$57,763</u>

VILLAGE OF ONSTED
Combining Balance Sheet
Non-Major Governmental Funds
February 28, 2005

Special Revenue Funds

	Park Improvement Fund
<u>Assets</u>	
Cash	<u>\$5,290</u>
Total Assets	<u>\$5,290</u>
<u>Liabilities and Fund Balances</u>	
<u>Liabilities</u>	
Due to Other Funds	<u>\$ 935</u>
Total Liabilities	<u>935</u>
<u>Fund Balance</u>	<u>4,355</u>
Total Liabilities And Fund Balances	<u>\$5,290</u>

VILLAGE OF ONSTED
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended February 28, 2005

Special Revenue Funds

	Park Improvement Fund
<u>Revenues:</u>	
Transfer From Other Government	\$ 1,000
Contributions	290
Interest Income	<u>3</u>
Total Revenue	<u>1,293</u>
<u>Expenditures:</u>	
Recreation and Culture	<u>10</u>
Total Expenditures	<u>10</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>1,283</u>
<u>Excess of Revenues Over Expenditures</u>	1,283
<u>Beginning Fund Balance</u>	<u>3,072</u>
<u>Ending Fund Balance</u>	<u>\$ 4,355</u>

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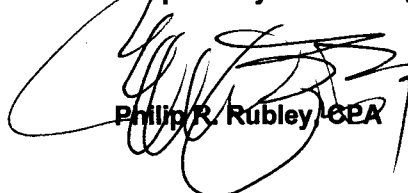
August 24, 2005

**Honorable Mayor and Members
Of The Village Council
Village of Onsted
Onsted, Michigan 49265**

In planning and performing my audit of the financial statements of Village of Onsted, Michigan for the year ended February 28, 2005, I considered the Village's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements. The consideration I gave to the internal control structure was not sufficient for me to provide any form of assurance on it. However, in reviewing the Village's processes and systems, I made observations I feel should be communicated to you and I have done so in a separate letter dated August 24, 2005. In addition I have summarized other areas for Council's consideration involving internal controls and fraud considerations.

If you have any questions on the information contained in this letter please contact me.

Respectfully Submitted,



Philip R. Rubley CPA

PRR/cab

INTERNAL CONTROLS

Over a relatively short period of time, there have been several large fraud related cases documented in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the council members of these not-for-profit organizations and governmental organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations, both small and large, have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with my clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure, which includes sound accounting and internal control policies and procedures (IN THE EYES OF THEIR EMPLOYEES). One of the key aspects of strong controls, and thus a deterrent, is senior management's support and involvement with accounting and internal control monitoring and related decisions.

Some of the key areas to focus on include, but are not limited to, the following:

- Cash receipts handling and posting to general ledgers including the initial posting of cash receipts.
- Posting of adjusting journal entries to the ledger.
- Cash disbursements, including the establishment of vendor master files in the computer system and maintenance and controls surrounding the signature of cash disbursement checks.
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the computer system.
- Proper approval procedures for all disbursements including a good checks and balances system i.e.: no one person responsible for this function where possible.

FRAUD CONSIDERATIONS

Statement of Auditing Standards No. 99 (SAS99), consideration of Fraud in a Financial Statement Audit

Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS99), *Consideration of Fraud in a Financial Statement Audit*, requires additional audit procedures addressing the risk of fraud in an organization. Our responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud, and our consideration of fraud is integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How management or employees could misappropriate assets of the client.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including council members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence of suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. With your help, the implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Creating A Culture Of Honesty And High Ethics

It is the Village's responsibility to establish core values and to effectively communicate the values to employees in order to create a culture with high ethical standards. The AICPA has included the following as key components necessary for the creation of such a culture.

Setting The Tone At The Top

Management, through the modeling of high ethics themselves and effectively communicating expectations to employees, is responsible for leading the effort to create the appropriate culture within the Village.

Creating A Positive Workplace Environment

The creation of a positive workplace environment, where employees feel they are treated fairly, has proven to reduce the risk of fraud. This type of environment could be created as follows:

Allowing employees to provide input related to the code of conduct.

- Enabling employees to internally seek advice concerning decisions that appear to have ethical implications.
- Establishment of a fair reward system.
- Implementation of team-focused decision making policies.

Hiring And Promoting Appropriate Employees

Policies must be effective in reducing the chances of hiring and promoting individuals with low ethical standards.

Training

Core values expressing an attitude of intolerance toward unethical behavior should be communicated immediately to new hires and should be recommunicated periodically to all employees.

Confirmation

Reinforcement of core values occurs if the employees are required to sign a code of conduct statement.

Discipline

Consequences of unethical behavior should be communicated upfront, and management response to unethical behavior should be consistent with the consequences communicated. Management's response demonstrates the level of commitment to the ethical standards and could deter future wrongdoing.

Evaluating Antifraud Processes and Controls

Perceived opportunity to successfully commit fraud increases the risk that fraud will occur. The following can help in reducing the opportunity for fraud.

Identifying And Measuring Fraud Risks

The Village's vulnerability to fraudulent activity (including Fraudulent financial reporting, misappropriation of assets, bribery and other illegal acts) should be assessed.

Implementing And Monitoring Appropriate Internal Controls

Internal processes can be modified to reduce fraud risk. Examples of such process modifications are as follows:

- Additional review of the procurement process
- Segregation of duties
- Adequate scrutiny of interim financial reports and budget reports by management

Developing An Appropriate Oversight Process

Whether it is external or internal oversight, appropriate oversight should be identified and established.

Village Council

The Village Council is ultimately responsible for ensuring management is doing an effective job of monitoring fraud risk and implementing procedures to mitigate fraud risk. Therefore, the Village Council should be evaluating management's assessments and controls.

Independent Auditors

Independent auditors can provide an assessment of the Village's process for identifying, assessing and responding to the risk of fraud.

Certified Fraud Examiners

Certified Fraud Examiners can provide additional insight into the risk assessment.

Other Information

The following Web sites provide additional guidance on fraud and the implementation of anti-fraud programs and controls:

American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
Financial Executives International
Information Systems Audit and Control Association
The Institute of Internal Auditors
Institute of Management Accounts
National Association of Corporate Directors
Society for Human Resource Management

www.aicpa.org
www.cfenet.com
www.fei.org
www.isaca.org
www.theiia.org
www.imanet.org
www.nacdonline.org
www.shrm.org

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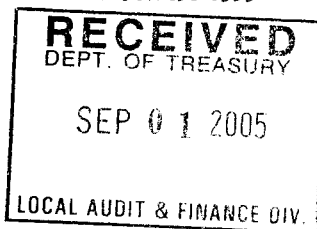
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August 24, 2005

Honorable Mayor and Members
Of The Village Council
Village of Onsted
Onsted, Michigan 49265

We have examined the combined financial statements of the Village of Onsted, Michigan and the combining, individual fund and account group financial statements of the Village as of and for the year ended February 28, 2005 and have issued our report thereon dated August 24, 2005. As a part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the Village's system of internal accounting control for the year ended February 28, 2005, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

1. Chart of Accounts

The account numbers need to be updated to conform to the State Uniform Chart of Accounts.

2. **Fixed Assets**

The Village needs to keep track of disposed items each year to properly maintain their fixed assets schedules established.

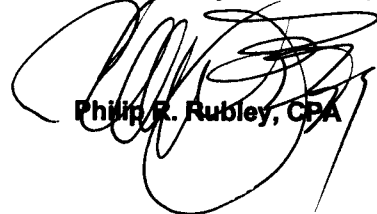
3. **General Ledger**

Each fund maintained by the Village must balance independently. The over all general ledger balances, but not the individual funds which it is made up of. Be sure that entries are balanced between each fund.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated August 24, 2005, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab